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U.S. Trade Ties with Argentina

BY J. C. deWILDE and BRYCE WOOD

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U.S. Trade Ties with Argentina

BY J. C. deWILDE and BRYCE WOOD*

THE conclusion of a trade agreement between the United States and Argentina on October 14, 1941 has been generally hailed as another step in the reinforcement of the Good Neighbor policy. It reflects and heralds the development of closer economic relations between the two countries, partly as a result of the war. For Argentina, whose economy has been primarily oriented toward Europe, the trade agreement appears to provide greater opportunities for the sale of its products in the United States market. Acting President Ramón Castillo has said that the accord, while not meeting all of his country's "problems and needs," at least permits Argentina "to view with increasing interest and justified optimism the possibilities of a market potentially capable of solving all the problems of our production." For the United States, the agreement represents a definite attempt to conciliate a country which has been comparatively cool to the policy of hemisphere solidarity and has long resented the barriers which restrict importation of Argentine products. It constitutes, also, a reaffirmation in wartime of the principles of the Hull program through which the United States hopes gradually to liberalize international trade. President Roosevelt has therefore welcomed the agreement as "an outstanding contribution to the economic welfare of our two countries and to the reconstruction of peaceful and profitable trade in the Americas and throughout the world."¹

ARGENTINE ECONOMY

The significance of the agreement can be appraised only after a study of recent economic developments in Argentina and of its trade with the United States. Argentina's economy has long been unusually dependent on conditions abroad. Its prosperity has largely been founded on the exportation of foodstuffs and agricultural raw materials. Although second in area and third in population,²

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1. For the statements of Dr. Castillo and President Roosevelt, and the exchange of messages between Secretary of State Cordell Hull and Dr. Don Enrique Ruiz-Guiñazú, Minister of Foreign Affairs of Argentina, see U.S. *Department of State Bulletin*, October 18, 1941, pp. 300-301.

Argentina outstrips all other Latin American countries in value of production and exports, and in per capita wealth.³ Compared to the rest of Latin America, Argentina is poor in mineral resources but possesses one of the world's richest agricultural regions in the *pampa*, a broad and almost treeless plain which spreads out like a fan from Buenos Aires. It grows half of the world's flaxseed, and large quantities of corn, wheat, barley and oats. Its cattle and sheep make it the largest exporter of beef, and place it next to Australia and the United States in wool production. Ordinarily, Argentina exports well over a third of its national production. About 90 per cent of the flaxseed, 80 per cent of the corn, 60 per cent of the wheat and 30 per cent of the beef produced in the country normally find their way abroad. In the four years 1935-38, agricultural products accounted for 58.7 per cent of the value of Argentina's exports, while pastoral or animal products comprised 36.2 per cent of the total. Four commodities alone—corn, meats, wheat and linseed—constituted 67.6 per cent of the value of all exports in this period.

EFFECT OF THE DEPRESSION

Until 1930 Argentine export trade flourished. After the first World War, which had greatly stimulated production, exports slumped temporarily, but soon recovered and even exceeded previous records. Owing to its low costs of production, Argentina was in an excellent position to survive competition in foreign markets, and suffered relatively little from the barriers to agricultural im-

2. Argentina, with an area of 1,078,000 square miles, ranks after Brazil. Its population figure of 13,000,000 is exceeded only by that of Brazil and Mexico. Raúl C. Migone, ed., *Inter-American Statistical Yearbook* (New York, Macmillan, 1940), pp. 51-52.

3. Total Argentine production in 1937 has been estimated at \$2,078,000,000, or \$160 per capita, as compared with \$1,282,314,500, or \$28.50 per capita, for Brazil in 1938. The totals in dollars were calculated at the rate of 3.2 pesos and 20 milreis to the dollar. See Emilio Llorens and Rafael García-Mata, *Argentina Económica* (Buenos Aires, Cia. Argentina, 1940), 2nd edition, p. 7; and *Brazil 1939-40* (Rio de Janeiro, Ministry of Foreign Affairs, 1940), p. 375. In 1938 Argentina accounted for 24 and 30 per cent of the value of all Latin America's exports and imports, respectively. See U.S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 2, *Argentina* (Washington, 1940), p. 12.

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ports which were generally erected in Europe. The economic depression of the early thirties, however, caused great hardship in Argentina. Throughout most of the world, prices of foodstuffs and raw materials fell much more rapidly than the cost of manufactured goods. As an exporter of agricultural commodities and an importer of industrial products, Argentina was severely affected by these "price scissors."⁴ Foreign markets contracted not only because of a sharp slump in purchasing power, but also because of a rapid increase in tariffs and other import restrictions. The United Kingdom, long Argentina's leading market, began to impose quotas on Argentine products and to discriminate in favor of food produced in the British Empire. On the European continent, domestic agricultural production was fostered at the expense of foreign competition. Argentine wheat exports suffered particularly from these measures. The United States, too, levied new and heavier duties on a number of Argentine products in the Smoot-Hawley tariff law of 1930.

During the crisis unemployment reached a peak of 325,000, and Argentina was compelled to take drastic measures to combat the depression. Foreign exchange control was instituted in 1931, and exchange was carefully rationed in order to insure the importation of essential products, continue service on the foreign debt, and discharge other financial obligations abroad.⁵ A new commercial policy, based on the principle "buy from those who buy from us," was inaugurated; and about fifteen agreements, many of them containing clearing or payment provisions to balance trade with each country, were concluded to this end.⁶ At the same time, the government sought to support agricultural prices. The most important effort in this direction was made through the *Junta Reguladora de Granos*, or Grain Board, which was set up in 1933 to purchase cereals with funds obtained from the government's foreign exchange operations. Rising prices ultimately enabled the Board to resell some of its stocks at a profit, so that it sustained a loss of only 2,374,475 pesos over the period 1933-36.⁷

The loss of exports was partly offset by an in-

crease in domestic economic activity. A program of road building and public works was carried out to minimize unemployment. Above all, the growing industrialization of the country absorbed a considerable number of workers. Manufacturing, which had been greatly stimulated by the first World War, experienced another period of rapid expansion after the advent of the depression. The accompanying table reveals the increase in indus-

Table I
PROGRESS OF ARGENTINE INDUSTRY*

	1935	1939
Number of industrial establishments	40,606	53,866
Employees	54,331	68,876
Workers	472,074	618,792
(in thousands of pesos)		
Salaries and wages paid	737,069	1,062,759
Value of raw materials used	1,964,225	2,998,107
Value of fuel used	84,145	127,776
Value of electric current used	32,080	41,791
Value of total industrial production	3,457,832	5,117,597

*Figures published by Dirección General de Estadística de La Nación and taken from Roberts, Meynell & Co., *Weekly News Bulletin*, no. 319.

trial establishments and employment from 1935 to 1939. Argentina has become the leading manufacturing nation in Latin America. Although its largest industries are engaged in the processing and packing of agricultural products, the manufacture of all types of consumers' goods has assumed an increasingly significant role. The production of textiles, shoes, soap, paints, paper, glass, building materials, electrical appliances, rubber goods, and pharmaceutical and chemical products expanded substantially through the depression. Although the insufficiency of iron ore and coal resources has prevented the development of a basic iron and steel industry, a growing volume of metallurgical products has been fabricated at home. The assembly of motor vehicles has also become an important industry. All in all, it has been estimated that about 350,000 persons obtained work manufacturing goods for domestic consumption which before 1930 had to be imported.⁸ While this process of industrialization did not make Argentina completely self-sufficient in consumers' goods and even accentuated the need for imported machinery, iron and steel and raw materials, it did cushion the shock of the depression.

IMPACT OF THE WAR

The second World War broke out before Argentina had fully regained its previous prosperity. Although Europe had been taking about three-quarters of Argentine exports and supplying about

8. "Argentina Shows Rapid Industrial Growth," *Press News from the Pan American Union* (October 1941).

4. In 1932, 1933 and 1934, the price index of imports into Argentina averaged 82.9, 79.1, and 91.7, respectively, as compared with 100 in 1927, while the price index of exports stood at 67.9, 65.1 and 78.5. See League of Nations, *Review of World Trade*, 1938, p. 68.

5. Argentina was the only Latin American country which kept up payments of interest and principal on that part of its government debt held abroad.

6. *The Foreign Trade of Latin America*, Part II, *Argentina*, cited, p. 17.

7. Roberts, Meynell & Co., *Weekly News Bulletin*, no. 133. On the success of the Board's work, see Simon G. Hanson, "The Argentine Farm Relief Program," *World Affairs*, June 1936.

60 per cent of its imports, Argentina was not at first seriously affected by the war. The loss of trade with Greater Germany (including Poland), which had accounted for 15 per cent of Argentina's exports and 13 per cent of its imports,⁹ was not of negligible importance; yet Argentina was fortunate in that it had restricted shipments to Germany to the value of imports, so that it was not caught with a large frozen Reichsmark balance in Berlin at the beginning of the war. Moreover, for some time Argentina was able to compensate for the loss of the German market through increased shipments to other areas. The Mediterranean remained open to trade until Italy's entry into the war in June 1940; in fact, Italy bought over 40 per cent more from Argentina in the first half of 1940 than in the entire year of 1939. Markets in Scandinavia and the Low Countries were accessible

until the spring of 1940; and the United Kingdom, which had always taken about a third of Argentina's exports, continued its large purchases. During the first nine months of the war the volume of Argentina's total exports, measured in tonnage, was actually over 12 per cent greater than in the corresponding months of 1938-39, while the value was almost 20 per cent higher. Shipments of canned meat, hides, skins, wool, corn and linseed declined, although the export prices brought by most of these products rose. In contrast to the increase in exports, the volume of imports¹⁰ in the first nine months of the war was over 6 per cent lower than in the corresponding period of 1938-39. Prices of imports, however, rose more rapidly than those of exports, so that the total cost of imports was up almost 20 per cent. Yet the export surplus was slightly greater than in September-May 1938-39.

Table II

PERCENTAGE DISTRIBUTION OF ARGENTINE FOREIGN TRADE*

Country of Origin or Destination	Imports					Exports				
	1937	1938	1939	1940	1941†	1937	1938	1939	1940	1941†
Great Britain	20.7	18.3	19.9	19.8	18.7	29.0	32.8	35.9	36.4	32.7
United States	16.0	17.7	17.2	29.1	27.8	12.8	8.5	12.0	17.5	36.1
Germany	10.7	10.1	9.1	0.7	0.4	6.8	11.7	5.7	.....	0.3
Italy	4.5	5.5	2.7	2.3	.....	6.2	2.5	2.1	3.4	.....
Belgium	7.2	5.2	6.5	2.8	0.1	9.4	7.4	7.1	2.5	.....
Netherlands	3.0	1.9	2.4	1.3	.....	9.4	7.4	8.1	3.7	.....
Brazil	5.1	4.7	6.5	7.8	12.8	5.7	7.0	4.3	5.3	5.8
France	4.2	4.3	5.6	3.0	0.2	4.2	5.4	4.9	5.8	0.2
Japan	3.6	3.3	0.8	2.1	3.6	1.0	1.2	0.7	1.5	3.5
Others	24.9	29.0	29.3	31.1	36.4	15.5	16.1	19.2	23.9	21.4

*Figures from *El Comercio Exterior Argentino*, published annually by the Dirección General de Estadística de la Nación of the Ministerio de Hacienda, and from the preliminary report for the first nine months of 1941 issued by the same office.

†First nine months.

With the invasion of Western Europe, followed by Italy's entrance into the war and the collapse of France, Argentine exports suffered a sharp drop. Almost 40 per cent of Argentina's normal outlets were closed. Of the entire European continent, only Spain and Portugal remained accessible. In addition, an acute shipping shortage developed. Almost all the Scandinavian, Dutch, Greek, French and Italian vessels, which together had accounted for about 46 per cent of the shipping tonnage entering Argentine ports in the first half of 1940, ceased to serve Argentine foreign trade. Increased sinkings also curtailed the volume of British shipping. The tonnage of vessels arriving in Argentine ports fell from 4,146,000 tons in the first half of

1940 to 2,544,000 in the second half—a drop of 39 per cent.¹¹ The shortage of refrigerated space for meat shipments to Britain became particularly acute. The volume of all exports declined over 50 per cent. Virtually all export staples suffered severely, particularly wheat and such fodder grains as corn, oats and barley, of which Scandinavia and the Low Countries had previously taken large quantities. Meanwhile, imports were relatively well maintained in volume, so that an export surplus of almost 95,000,000 pesos in the first half of 1940 was converted into a deficit of over 165,000,000 in the last half of the year. The total recorded import surplus for 1940—70,912,000 pesos—was actually increased further by the blocked sterling balances which Argentina accumulated in London. Under arrangements made with Britain, the pro-

9. Trade with Czechoslovakia and Austria, as well as Poland, is included.

10. Measured in terms of tariff valuations, which are practically constant and therefore reflect changes in volume with considerable accuracy.

11. Banco Central de la República Argentina, *Suplemento Estadístico de la Revista Económica*, July 1941, p. 4.

Table III
ARGENTINA'S WARTIME TRADE¹
(in thousands of pesos)

Year	Imports		Exports		Balance of Trade
	"Real" Values ²	"Tariff" Values ³	Value	Metric Tonnage	
1938	1,460,888	1,419,438	1,400,453	9,119,438	— 60,435
1939	1,338,332	1,248,353	1,573,173	12,875,100	+ 234,841
1940	1,498,757	1,079,326	1,427,845	9,469,354	— 70,912
1940 (first half)	830,589	585,938	925,219	6,372,516	+ 94,631
1940 (second half)	668,168	493,388	502,626	3,096,838	— 165,542
1940 (9 months)	1,202,811	855,521	1,178,302	8,088,520	— 24,510
1941 (9 months)	894,598	596,438	1,094,823	4,782,808	+ 200,224

1. Figures from *El Comercio Exterior Argentino*, cited.

2. Actual prices paid.

3. Valuation for customs purposes, which remains virtually stable.

ceeds from Argentine exports to the sterling area¹² were paid in blocked sterling, which could be used only for the purchase of goods in this area and the discharge of debt and other financial obligations. The balance remained blocked. During 1940 Argentina's frozen accounts abroad, primarily in Britain, increased by 65 million pesos.¹³ To keep its balance of payments in equilibrium Argentina was compelled to ship gold valued at 246,923,761 pesos during 1940.

COMBATING THE CRISIS

The severe crisis which threatened the country toward the end of 1940 did not actually become as acute as anticipated. There has been a further increase in internal economic activity, reflected by the fact that check clearings in the first eight months of 1941 were 7 per cent greater than in the corresponding period of the preceding year.¹⁴ Industrialization has apparently continued to make some progress,¹⁵ although it has recently been handicapped by a shortage of fuel and imported raw materials. Most important of all, the Argentine government has "postponed" the agricultural crisis by buying up huge farm surpluses at minimum prices. There has been no fundamental decision to curtail drastically the output of agricultural staples for export and reorient the country's

production basically toward markets at home and in the Western Hemisphere.

At the beginning of the war the Grain Board was already saddled with enormous wheat stocks bought to prevent a collapse of prices after the record crop of 1938-39. The corn surplus, however, has proved the most burdensome. The 1939-40 crop was almost 39 per cent greater than the average for the previous five years, so that the Board was compelled to purchase the bulk of the output. The corn bought in this way was stored in improvised cribs on farms where it rapidly deteriorated. Efforts were made to dispose of it at bargain prices for use at home as fuel and fodder. Electric plants, railways and industries were encouraged to burn corn mixed with coal. In order to stimulate its consumption as fuel, the government empowered the National Fuel Commission in June 1941 to condition private imports of fuel on the purchase of specified quantities of corn.¹⁶ A decree of July 14, 1941 finally authorized the Grain Board to destroy the balance of government-owned corn of the 1939-40 crop.¹⁷ The 1941 corn harvest, however, was equally large, thus necessitating further intervention by the Board. With exports greatly reduced,¹⁸ the Grain Board will probably be able to resell only a small proportion of its stocks before the next crop comes on the market. The Board has also been buying big quantities of barley, wheat and linseed at fixed prices. It is expected that large carry-overs of all grains will have to be added to the 1941-42 crops.¹⁹ Although these purchases have prevented the Argentine farmer from feeling the full effect of the crisis, they have proved costly to

12. Including the United Kingdom, Egypt, the Anglo-Egyptian, Sudan, Iraq and all parts of the British Empire except Canada, Newfoundland and Hongkong. See Thomas R. Wilson, "British Financial Agreements with Foreign Countries," *International Reference Service*, March 1941.

13. Banco Central de la República Argentina, *Annual Report, Sixth Financial Period, 1940* (Buenos Aires, 1941), p. 7.

14. Banco Central de la República Argentina, *Suplemento Estadístico de la Revista Económica*, September 1941, p. 4.

15. Estimates of output and raw materials utilized in 1941 issued by the Unión Industria Argentina (*The Review of the River Plate*, September 12, 1941, pp. 11-12) indicate a slight gain over the figures of the industrial census taken in 1939, although it is not known to what extent these statistics are comparable.

16. *Foreign Crops and Markets*, July 7, 1941, p. 3.

17. *Ibid.*, August 11, 1941, p. 146.

18. From January 1 to October 30, 1941 corn shipments totaled only 452,699 tons, as compared with 1,773,835 tons during the same period in 1940. Roberts, Meynell & Co., *Weekly News Bulletin*, no. 333.

19. See speech of Dr. Adolfo Bioy, president of the Argentine Rural Society, on August 17, 1941, as reported in Roberts, Meynell & Co., *Weekly News Bulletin*, no. 323.

the national exchequer. By September 1941 the government had already accumulated a debt of 700,000,000 pesos on this account, and further heavy expenditures were inevitable to insure continuation of the policy.²⁰

NEW TRADE OUTLETS

In partial compensation for the loss of almost the entire continental European market, Argentina has been able to find new and larger trade outlets for some of its products. While the sale of many agricultural staples, particularly grain, has lagged, the exportation of a considerable number of products which had never been sold abroad in large quantities has increased. Among these have been wines and liquors, vegetable oils, furs, cotton, sugar, potatoes, minerals and, especially, dairy products, including butter, cheese and casein.²¹ While small in value compared to cereals and meats, increased shipments of these commodities indicate a sound tendency toward the diversification of export trade. The government has fostered the exportation of some of these products by paying a higher price for the foreign exchange accruing from their sale.

The government has also been successful in promoting exports to markets which still remain open. Agreements have been made with Spain for the sale, on credit, of large quantities of cotton, wheat, corn and some meat. Exports to Spain accordingly rose from 29,948,745 pesos in 1939 to 56,071,052 in 1940, and have remained at a high level in 1941. While the value of exports to the United Kingdom, ordinarily Argentina's largest market, has been declining,²² new arrangements concluded in October 1941 hold out the prospect that Britain will buy more meat, at slightly higher prices, in the period September 1, 1941-August 31, 1942.²³

Meanwhile, Argentine trade with Latin American countries has also developed. Exports to 13 Latin American republics rose from 132,681,758 pesos in 1939 to 172,874,864 in 1940; and in the first nine months of 1941 they showed an increase of almost 18 per cent over the same period in 1940. The Argentine government has actively fostered

this trade through the negotiation of new commercial treaties. The most important of these were concluded on April 9, 1941 with Brazil, which had earlier—in January 1940—signed a general commercial agreement with Argentina providing for extensive tariff concessions.^{23a} In one of the two conventions, which became provisionally effective on April 14, 1941, Brazil agreed to abandon gradually its regulations requiring the admixture of other flours with wheat, which had curtailed the sale of Argentine grain, and to facilitate the entry of other Argentine products. In return, Argentina undertook to prohibit the sale of coffee mixed with substitutes and to promote the purchase of Brazilian iron and steel, lumber, rubber and cotton textiles. In the other convention the central banks of the two countries agreed to open up credits in each other's favor for the purchase and gradual disposal of Argentine and Brazilian surplus products.²⁴ On November 21, 1941 Argentina and Brazil signed a 10-year treaty undertaking to admit free of duty the products of new industries and to grant especially favorable treatment to other goods produced in the two countries.^{24a} Commercial treaties embodying the unconditional most-favored-nation clause were concluded during 1940 with Colombia and Cuba, and a supplemental agreement was made with Chile. Argentina also participated in a conference of the five River Plate countries, including Uruguay, Brazil, Bolivia and Paraguay, which met from January 27 to February 6, 1941 and adopted a number of conventions and resolutions toward closer cooperation.²⁵

GROWING TRADE WITH UNITED STATES

The phenomenal increase in exports to the United States over the past year has been the greatest single factor which has enabled Argentina to weather the crisis. Trade between the United States and Argentina has always been substantial. Argentina has taken considerable quantities of motor vehicles and parts, iron and steel products, agricultural, industrial and electrical machinery, typewriters and calculating machines, lumber, oil, etc. In turn, the United States has been an important market for Argentine flaxseed, cattle hides, wool, canned beef, quebracho wood and extract, and other products. Argentina, along with Brazil, has been the leading Latin American customer of the United States, and it has generally ranked second

20. Chamber of Commerce of the United States in the Argentine Republic, *Circular No. 37*, September 25, 1941.

21. Exports of dairy products rose from a value of 14,815,019 pesos in 1938 to 27,472,804 pesos in 1940. In the first nine months of 1941 such exports were valued at 47,686,765.

22. In the first nine months of 1941 exports to the United Kingdom totaled 357,400,309 pesos, as compared with 452,970,917 pesos in the corresponding period of the previous year.

23. The new agreement is said to involve the sale of 500,000 tons of chilled and frozen meat (Roberts, Meynell & Co., *Weekly News Bulletin*, no. 331), whereas in the preceding year Britain had undertaken to buy only 390,000 tons ("Economic Conditions in Argentina in 1940," *International Reference Service*, August 1941, p. 3).

23a. This agreement was ratified by Argentina on September 1, 1941, but has not yet been formally approved by Brazil.

24. *Foreign Commerce Weekly*, May 17, 1941, p. 278; for the texts, see "Los Dos Nuevos Convenios Comerciales entre la Argentina y el Brasil," *Acción Económica*, April 28, 1941.

24a. *The New York Times*, November 22, 1941.

25. "La Conferencia Regional del Plata," *Acción Económica*, February 27, 1941.

in Latin America as a source of supply for this country. Nevertheless, the United States' share of Argentine trade has never been as large as that in the commerce of other Latin American nations. Until recently this country did not take much more than 10 per cent of Argentina's exports, and generally supplied less than 20 per cent of its imports during the past decade. Trade relations, moreover, were disturbed by a number of factors. Argentina has long resented the embargo imposed by the United States on imports of fresh meat from countries where the hoof-and-mouth disease existed. This embargo, which applied only to meats from actually infested areas in the period 1927-1930, was extended by the Tariff Act of 1930 to the whole of any country such as Argentina where the disease was known to exist. On May 24, 1935 the United States concluded a Sanitary Convention with Argentina providing for a return to the regulations prevailing before 1930, but the Senate so far has refused to approve its ratification.²⁶ The Tariff Act of 1930, moreover, created further resentment by sharply increasing the duties on a number of Argentine products, including flaxseed and canned meats.

The obstacles to trade were considerably increased after 1931, when the Argentine government began to discriminate against those countries which did not buy as much from Argentina as they sold to it. This policy operated chiefly to the disadvantage of the United States, which is itself an exporter of cereal grains, and a large producer of meat and wool, and therefore has seldom been able to buy a large share of Argentina's staple exports other than flaxseed. United States sales to Argentina have generally far exceeded its purchases. Until 1941 Argentina had enjoyed an export surplus in its trade with the United States only in the three years 1935-37, and then solely because a succession of droughts in this country necessitated heavy imports of grain. Argentine measures against imports from the United States took the form of discriminatory quotas and foreign exchange restrictions. Argentine authorities freely granted exchange for imports from countries with which it enjoyed an export surplus. Imports from Britain were favored in this way. In the Roca-Runciman agreement with Britain, first made in 1933 and later extended, Argentina agreed to use all of its foreign exchange proceeds from sales to that country for the importation of British goods and the discharge of financial obligations in Britain, except for a "reasonable sum" which might

be used to service the Argentine government debt in other countries.²⁷ At the same time, exchange allotments for imports from the United States were sharply curtailed and limited, as far as possible, to essential items. Moreover, exchange for most United States products was made available at rates from 10 to 20 per cent higher than that sold to importers of British goods. United States exporters, particularly of motor vehicles and parts, were severely handicapped by these regulations, which were changed with confusing frequency.²⁸

In the fall of 1940, at the end of the first year of the European war, the trade relations between the United States and Argentina reached a crisis. Owing to the curtailment of European sources of supply and growing restrictions on the availability of British products,²⁹ Argentina had been compelled, despite its general policy, to rely increasingly on the United States for essential imports. U.S. exports of chemicals, textile fibers and manufactures, paper and paper materials, and, above all, of iron and steel products, had increased rapidly. Argentine exports to this country, however, had risen much more slowly, in part because sales of flaxseed had slumped badly following a sharp increase in production in the United States. This country's export surplus in the first nine months of 1940 had reached \$31,293,000, as compared with only \$1,633,000 in the same period of 1939.³⁰ In 1940 Argentina had to ship \$59,000,000 worth of gold to meet this deficit and pay its other debts in the United States. It therefore resolved once more to reduce its purchases from this country. In September Argentine authorities suspended action on all exchange permits for imports from the United States. Although this measure proved temporary, subsequent exchange allotments were greatly restricted, particularly for motor vehicles and agricultural machinery. In December 1940 Argentina successfully negotiated a credit of \$60,000,000 from the Export-Import Bank and a loan of \$50,000,000 from the Currency Stabilization Fund of the U.S. Treasury, but a deadlock between the Argentine Executive and Congress has since prevented ratifi-

27. See Herbert M. Bratter, "Foreign Exchange Control in Latin America," *Foreign Policy Reports*, February 15, 1939. After the outbreak of the war, this agreement was extended to include trade with the entire sterling area, including Egypt, the Sudan, Iraq and the whole British Empire except Canada, Newfoundland and Hongkong.

28. On this question, see Virgil Salera, *Exchange Control and the Argentine Market* (New York, Columbia University Press, 1941).

29. Imports from the United Kingdom declined from 284,274,123 pesos in 1939 to 213,583,239 in 1940, and in the first nine months of 1941 dropped sharply to 111,511,612 pesos, as compared with 176,983,085 in the corresponding period of 1940.

30. "Trade of the United States with Argentina," *International Reference Service*, June 1941.

26. For a discussion of the embargo, see Percy W. Bidwell, *The Invisible Tariff* (New York, Council on Foreign Relations, 1939); also Constant Southworth, "Toward Free Trade with Latin America," *Foreign Policy Reports*, September 15, 1941.

Table IV
UNITED STATES TRADE WITH ARGENTINA*
(in thousands of dollars)

U.S. EXPORTS	1929	1932	1938	1939	1940
Textile fibers and manufactures	13,974	3,829	885	1,170	3,237
Iron and steel mill products	9,099	1,722	2,758	5,591	28,481
Iron and steel advanced manufactures	4,384	748	1,801	1,317	2,648
Electrical machinery and apparatus	7,376	2,777	4,729	4,249	5,469
Industrial machinery	9,948	2,211	6,891	7,676	9,867
Office appliances	2,524	261	1,258	1,187	1,380
Chemicals and related products	5,874	2,061	3,968	5,401	7,828
Coal	197	47	61	976	1,600
Petroleum and its products	18,579	2,789	2,940	3,262	1,522
Lumber	9,497	2,004	3,287	3,274	1,755
Agricultural machinery and implements	35,342	703	14,286	6,824	4,188
Automobiles, parts and accessories	57,255	3,982	24,635	15,114	16,017
All exports	210,288	30,988	86,500	70,621	106,383
U.S. IMPORTS					
Canned beef	6,855	595	3,741	3,650	3,662
Casein, cheese and butter	2,758	96	220	1,068	2,211
Hides and skins	30,395	3,565	4,583	11,181	14,378
Undressed furs	3,855	997	1,286	1,055	2,154
Wool	12,028	867	6,273	11,954	31,551
Flaxseed	44,196	4,738	18,559	17,542	11,735
Quebracho wood and extract	4,806	1,949	2,489	4,624	3,023
All imports	117,581	15,779	41,674	58,549	80,571
EXPORT SURPLUS	92,707	15,209	44,826	12,072	25,812

*"Trade of the United States with Argentina in 1940," *International Reference Service*, June 1941, and *Foreign Commerce and Navigation of the United States*.

cation of this action. At any rate, a revised exchange-control system, inaugurated in February 1941, continued to discriminate against imports from the United States.³¹

The crisis, however, has been surmounted, thanks to the rapid increase in the sale of Argentine products to the United States which developed in the last few months of 1940 and has continued to this day. Trade relations changed completely. During the first ten months of 1941, Argentine exports to this country reached a value of \$141,189,827, in contrast to only \$62,189,827 in the corresponding months of the previous year. This represented an increase of almost 126 per cent.³² The sharp rise in U.S. imports of such Argentine products as wool, hides and skins, and quebracho (tanning) extract has been attributable primarily to the demand created by the U.S. defense program launched in the middle of 1940. Increased purchasing power and the curtailment of European sources of supply have been responsible for some of the increases. Argentina, for example, has been selling to the United States vermouth, which former-

ly came from Italy and France, and types of cheese which Italy and other European countries used to supply. U.S. government agencies have themselves bought relatively little from Argentina. The Army and Navy have purchased some corned beef, and the Metals Reserve Company small quantities of zinc and lead concentrates, and tungsten. Wool, and hides and skins account for well over half the increase in imports from Argentina. While the United States has been unable to relieve Argentina of its burdensome surpluses of grain and flaxseed, its greater purchases have been largely instrumental in enabling Argentina to recover from the disastrous decline in foreign trade during the latter half of 1940 and to sell its entire exportable surpluses of wool and hides at relatively good prices. As a result, the United States' share of all Argentine exports has increased from 12 and 17.5 per cent in 1939 and 1940, respectively, to 36.1 per cent in the first nine months of 1941.

Despite the rise in imports from Argentina, United States exports to that country have declined. They fell from \$84,795,387 in January-August 1940 to \$55,925,058 in the same period of 1941; and the balance of trade which yielded the United States an export surplus of \$28,666,961 in the first eight months of 1940, changed to an im-

31. "The Latin American Exchange Situation Today," *Foreign Commerce Weekly*, May 31, 1941.

32. Figures of the U.S. Consulate General in Buenos Aires, published in Roberts, Meynell & Co., *Weekly News Bulletin*, no. 334.

Table V

RISE IN ARGENTINE EXPORTS TO UNITED STATES*
(dollar value f.o.b. Argentina)

	10 mos. 1940	10 mos. 1941
Wool	21,182,782	56,555,295
Hides and skins	12,355,320	30,941,080
Linseed	12,034,203	12,285,942
Quebracho extract	2,187,365	5,445,760
Metals and minerals	2,037,023	2,778,492
Fertilizers	1,489,568	2,886,401
Meat and by-products	3,693,979	8,131,901
Casein (9 months)	739,004	2,850,134
Dairy products	837,742	4,624,812
Fruit and preparations	881,789	2,173,974
Vermouth (9 months)	35,907	900,134
Vegetables and preparations	80,429	758,913
Eggs (9 months)	.....	922,874

*Roberts, Meynell & Co., *Weekly News Bulletin*, no. 334 and *Comments on Argentine Trade* (U.S. Chamber of Commerce in Argentina), October 1941.

port surplus of \$53,497,563 during the corresponding months of 1941. The drop in Argentina's purchases in the United States has been largely due to this country's growing preoccupation with defense production. Manufacturers with defense orders have frequently been unable to carry out foreign contracts or to obtain licenses for the exportation of needed materials to Argentina.

To a smaller extent, the decline in exports to Argentina is explained by the latter's failure to liberalize the restrictions against United States products as rapidly as a larger volume of dollar exchange became available. Some relaxation in the restrictions did gradually take place. Under new regulations issued on May 16, 1941, exchange was accorded at more favorable rates for a considerable number of articles imported from the United States, and exchange permits were granted for certain imports which had previously been prohibited.³³ At the same time a private Trade Promotion Corporation was set up to foster the exportation to the United States of many products, including canned meat, wines, cheese, fruit, leather goods, etc., which had previously not figured prominently in Argentine sales; and the Corporation was allowed to sell the foreign exchange accruing from such exports, estimated—on the basis of 1940 exports—at \$14,000,000 a year, to importers of United States motor vehicles, agricultural machinery and their spare parts.³⁴ Further liberalization was effected on July 1, when importers were relieved of the need to obtain prior exchange permits for about 85 per cent of the articles imported in 1940, and some 900 articles previously barred entirely were freed for unre-

stricted importation or for importation under quotas.³⁵ More generous exchange rates were also granted for a number of United States goods. In many cases, however, these measures have come too late to benefit U.S. exports to Argentina, at a time when the defense program in the United States has created serious shortages of certain products and curtailed supplies available for export. While Argentina has been willing to grant exchange freely for such essential items as iron and steel products and industrial machinery, which have been difficult to obtain, it has continued to hamper the importation of less essential but more plentiful items by charging importers of such articles relatively high prices for dollar exchange.

CONCLUSION OF THE TRADE AGREEMENT

All in all, however, circumstances in 1941 were much more favorable to the negotiation of a trade agreement between the United States and Argentina than previously. Negotiations carried on in 1939 had been terminated early in 1940 primarily because the United States government, unwilling to antagonize the farm bloc in an election year, insisted on circumscribing tariff concessions with quota limitations. In 1941 the two countries were no longer laboring under the fear that their respective markets would be flooded by imports from each other. This time each needed the other's products. Although exploratory discussions began late in 1940, formal intention of drawing up a trade agreement was not announced until May 12, 1941. Negotiations progressed rapidly, and the agreement was formally signed at Buenos Aires on October 14. It became provisionally effective on November 15.³⁶

Concessions by Argentina. The duty concessions made in the new agreement by Argentina are on the whole moderate. Tariff rates are lowered on 39 items, which together constituted 18.2 per cent of U.S. exports to Argentina in 1940; rates are bound on 88 articles, which accounted for 12 per cent of U.S. shipments last year. Altogether, the concessions cover a relatively small proportion of U.S. exports in 1940, because they affect those goods the importation of which Argentina has severely restricted. Reductions on only 12 items have become effective immediately. Among these are reductions of 30 and 35 per cent in the rates on prunes and raisins, and one of 50 per cent on imports of fresh apples, pears and grapes during the Argentine winter season. Included in this category,

35. *Review of the River Plate*, July 4, 1941.

36. For text of the agreement and related notes, see Department of State, *Press Release No. 494*, October 14, 1941. For an analysis of its provisions see *Press Release 495* of same date.

33. *Foreign Commerce Weekly*, May 31, 1941, p. 372.

34. *Ibid.*, June 7, 1941, pp. 412-13.

also, are slight reductions on light, inexpensive passenger cars; somewhat greater concessions on medium-weight, inexpensive automobiles; and a small cut on imports of truck and bus chassis. Rubber hose, fluorescent bulbs and lighting fixtures, raw motion-picture film, canned salmon and mackerel, and certain types of sardines are other products on which the entire concession applies immediately. The balance of the rate reductions, however, will remain partially or wholly suspended until Argentine receipts from import duties again exceed 270,000,000 paper pesos in any calendar year. Since such receipts totaled only 230,862,176 in 1940 and were 32.2 per cent below last year's level in the first nine months of 1941, this condition may not be fulfilled for a very long time—probably not before the war, which has greatly curtailed Argentine imports, has been concluded. Partial reductions, however, have become effective on imports of some automobile replacement parts, of the larger radios and more powerful radio tubes, of parts for automatic refrigerators, and of certain miscellaneous light machinery and electrical equipment. Part of the reductions on lumber (fir, spruce and southern pine), turpentine and rosin have also gone into effect. Among the more important imports on which Argentina has undertaken to bind its duties are leaf tobacco and cigarettes, small radio sets, agricultural machinery, refrigerators, pumps and oil burners, typewriters, calculating machines, cash registers, chewing gum, photographic film and fountain pens.

Perhaps the most important provision is Argentina's pledge to grant imports from the United States most-favored-nation treatment—i.e., to treat them in all respects on a footing of complete equality with those from other countries. The exceptions, however, are significant. In a special exchange of notes, the United States has agreed to forego the benefit of tariff preferences and exemptions which Argentina may extend, on a regional basis, to its neighbors, or any exchange and quota preferences granted to Peru and contiguous countries during the current European war. Moreover, the Argentine government has specifically declared that it cannot yet abandon the preferential exchange treatment of British goods because of its inability to convert its sterling balances freely into dollar exchange. Nor has it agreed to terminate the system of differential exchange rates by which Argentina has in the past discouraged importation of many products.

Concessions by the United States. On paper, the concessions made by this country are much greater than those granted by Argentina. They cover a large number of items which composed 92.4 per cent of U.S. imports from Argentina in 1939 and

74.6 per cent in 1940. Rates are reduced on goods which constituted 69.6, 63.6, and 43.5 per cent of imports from Argentina in 1938, 1939 and 1940, respectively. The concessions are divided into two lists: Schedule II,^{36a} which includes those products of which Argentina is generally the primary source of supply; and Schedule III, which comprises products of which European countries are normally the chief suppliers and on which the United States therefore reserves the right to revoke its concessions on six months' notice any time after the termination of the war. In Schedule II, which includes by far the greater part of the imports benefited by the agreement, one of the most important concessions is the reduction in the duty on flaxseed or linseed from 65 cents per bushel, which was equivalent to 54 per cent ad valorem in 1940, to 32.5 cents. Part of this reduction was designed to compensate for the rapid rise of freight charges on Argentine linseed shipments during the war; and the agreement provides that the rate will be raised to 50 cents once the President finds that this "abnormal" trade situation has ceased. The agreement has halved the duty on canned meats (primarily corned beef), which has been 6 cents per lb.;³⁷ on quebracho extract, which has been 15 per cent ad valorem; on cattle hides, which has been 10 per cent ad valorem; and on casein, which has been 5½ cents per lb., equivalent in recent years to 80 to 110 per cent ad valorem. Imports of all these products have increased during 1941.

In another significant concession the United States has agreed to reduce the duty on grapes (25 cents per cubic foot) and on fresh plums, prunes or prunelles (½ cent per lb.) by 50 per cent during late winter and spring, when none of the home-grown fruit reaches the market. Although 83 per cent of wool imports from Argentina in 1940 consisted of carpet wools, and therefore entered free of duty, the United States has cut by more than one-third certain dutiable grades of wool (less than 44's in fineness) of which this country produces a quantity less than 2 per cent of total domestic wool output. Duty reductions of less significance apply to imports of meat extract, fresh asparagus (effective only during a limited period in winter), tallow, oleo oil and stearin, articles of reptile leather, and a few other products of lesser importance. Tariff rates on a considerable number of articles, including fresh pears, alfalfa seed, glycerine and certain types of mica, have been bound. Among the items which the United States

36a. Schedule I includes concessions granted by Argentina.

37. Although a minimum ad valorem rate of 20 per cent is retained, increased imports of canned beef should be possible, since the 6 cent duty was equivalent in 1939 to an ad valorem rate of 60 per cent.

has agreed not to take off the free list are carpet wool; hides and skins other than those of cattle; certain fur skins; sheep, lamb and goat casings; crude yerba maté; quebracho wood; and such fertilizers as tankage, bone meal and dried blood.

In Schedule III the most important concession, perhaps, is the reduction in the duty of Italian-type cheeses, from 7 cents per lb. (with a minimum ad valorem rate of 35 per cent) to 5 cents (with a minimum of 25 per cent ad valorem). In addition, the United States has agreed to keep the rates on wines and liqueurs at the levels to which they were lowered in the agreement concluded with France. Fifty per cent cuts in the duties on anchovies, on vermicelli, macaroni and noodles, and on prepared or preserved tomatoes may be of increasing importance in the future. This country has also halved its tariff rates on some types of dressed furs, on beryllium oxide or carbonate, sunflower oil and certain medicinal preparations of animal origin.

EVALUATION OF THE AGREEMENT

Under the present disturbed conditions of international trade, it is extremely difficult to evaluate a commercial agreement of the type concluded by Argentina and the United States. The two governments themselves do not know how the accord will work out in practice. They have agreed to remain in consultation on all matters affecting its operation and to set up for this purpose a joint commission which will study the effect of the agreement; make recommendations regarding the fulfillment of its provisions, and consider any other questions submitted by the parties.

In wartime, trade currents are determined not so much by tariff rates, as by the overwhelming need of countries for certain scarce commodities, by the availability of shipping facilities, and by the ability to continue certain types of exports. Even in normal times imports will surmount relatively high tariff barriers if domestic prosperity creates the requisite purchasing power and demand. For these reasons it is probably safe to conclude that the new agreement will, for some time, remain a relatively unimportant factor in shaping trade between Argentina and the United States, and that action taken on shipping and priority problems will primarily determine the extent to which the two countries will be able to take advantage of the tariff concessions they have made to each other.

The development of export trade to Argentina, for example, will depend almost entirely on the capacity of the United States to export those products which Argentina needs. The Economic Defense Board in Washington is at present working out a policy on priorities for exports to Latin Amer-

ica. It is doubtful, however, that this will permit a general increase in shipments to Argentina. With the drastic curtailment on production of motor vehicles, refrigerators and radios now in effect, exporters are not inclined or able to take advantage of lower Argentine duties to increase their sales of these products. The United States may, of course, be able to ship larger quantities of apples, pears, grapes and dried fruits on which tariffs have been reduced. Yet in view of the high freight rates and relatively limited purchasing power of Argentine consumers, the possibility of developing a larger market for United States fruit must be discounted.^{37a} The limited amount of cargo space may also restrict exports, although for the time being the shipping situation with respect to South America is easier in the southbound than in the northbound trade.

The tariff concessions made by the United States are quite generous and appear to reflect a genuine desire to provide Argentina with a larger market in the United States. True, they do not affect duties on Argentine grain, but it was hardly to be expected that this country, which itself has surpluses of grain, would facilitate the importation of cereals. It must be admitted, however, that part of the concessions are offset by the sharp increases in freight rates on Argentine products which have occurred during the war.³⁸ The chief obstacle to further expansion of Argentine exports to the United States is the acute shortage of shipping in the northbound trades which handle such bulky commodities as wool, hides, coffee, flaxseed, ores and other raw materials. The volume of shipping entering Argentine ports and serving Argentine foreign trade in the first half of 1941 was slightly less than the extremely low figure in the last half of 1940.³⁹ Cargo space has been so difficult to obtain that the U.S. Maritime Commission has had to insure priority for shipments of vital defense materials such as wool, and hides and skins. Because of the boom in construction and the increased demand for linseed oil for paints and varnishes, large quantities of linseed have been imported into the United States this year, despite the sharp increase in domestic pro-

37a. On this point, see the speech delivered on August 14, 1940 by F. A. Motz (Fruit Specialist of the Office of Foreign Agricultural Relations, U.S. Department of Agriculture) on the topic: "South America—Competitor and Customer."

38. From January to September 1941, for example, freight rates on shipments to U.S. Atlantic ports have risen as follows (per ton): linseed, from \$10.50 to \$22; quebracho extract, from \$10 to \$15; salt hides, from \$17 to \$25; cased meat, from \$12 to \$18. See *Comments on Argentine Trade*, cited, December 1940 and September 1941.

39. Ship arrivals in the first half of 1941 totaled 2,349,000 tons, as compared with 2,544,000 in the last half of 1940. Banco Central de la República Argentina, *Suplemento Estadístico de la Revista Económica*, July 1941, p. 4.

duction^{39a} and the high import duty. The recent reduction in the tariff rate may enable Argentina to raise the price of its linseed, but will not necessarily stimulate additional exports because of limited shipping facilities. If, as has been rumored, the United States government should itself buy quantities of linseed from Argentina, it would presumably also make arrangements to insure its shipment. To relieve the shipping shortage, the Argentine government purchased from Italy last August 16 merchant vessels, totaling 88,328 tons, which had been lying idle in Argentine ports; and it is reported that some of these will be used in trade with the United States. Just as in the past year, any increase in Argentine exports to this country which may develop in the immediate future will be influenced primarily by the great upsurge in wartime demand, and not so much by the height of import tariffs. With the relatively high prices prevailing for most farm products and the limited shipping facilities, United States farmers need not be disturbed by the possibility of very much larger imports of Argentine dairy products, fruit, linseed, wool, etc. The principal effect of the duty concessions will be to enable the importer to get his goods slightly cheaper or to enable the Argentine exporter to charge a somewhat higher price.

The recent substantial increase in sales to the United States has undoubtedly been a great help to Argentina in overcoming an acute export crisis. Since U.S. imports, however, are largely related to emergency wartime needs, Argentina is concerned about their cessation or curtailment after the war. It is interested in developing a more permanent market for its exports in the United States. In this respect the trade agreement offers some hope by granting concessions on a considerable number of products like cheese, casein, grapes, wines, aspara-

39a. U.S. production of linseed rose from 20.2 million bushels in 1939 to 31.2 million in 1940, and an estimated total of 30.7 million in 1941.

gus, canned meats and others, larger sales of which may be developed in the long run. This modest beginning will have to be seconded by more diligent and efficient methods of marketing by Argentine producers and exporters. The newly formed Trade Promotion Corporation is helping such exporters and manufacturers to standardize and improve the quality of their products for sale in the United States. Hitherto, high import duties and fear of changes in tariff rates have discouraged promotion of Argentine products in this market. By insuring stable and favorable tariff treatment for a minimum of three years,⁴⁰ the agreement gives Argentina a real incentive to develop its export trade with the United States.

On the whole, the new trade agreement with Argentina makes a constructive, though modest, contribution to the reinforcement of commercial and political ties in the Western Hemisphere. During the war its economic effect will depend largely on the collaboration of the two parties in dealing with such matters as shipping and priorities which, for the time being, have a vital bearing on the development of trade. The agreement also lays the foundation for a larger and more diversified exchange of goods between Argentina and the United States in the post-war period. It is important not so much because of its scope, as because of the fact that the two countries have regularized their trade and put an end to the exasperation and resentment which they have so often aroused in the past by arbitrary treatment of each other's exports. The accord has furnished Argentina with tangible evidence that the United States is prepared to implement its policy of hemisphere solidarity by positive economic measures. For this reason, it helps to remove distrust of the United States in Argentina and may make that country more inclined to cooperate in the defense of the Western Hemisphere.

40. Article XIX provides that the agreement will remain in force until November 15, 1944 and will remain effective after that date, subject to termination on six months' notice. As previously indicated, the United States may withdraw certain concessions at the end of the current European war.

The December 15 issue of FOREIGN POLICY REPORTS will be

PORTUGAL: BELEAGUERED NEUTRAL

by A. Randle Elliott